MONETARY POLICY STATEMENT

PRESS CONFERENCE

Christine Lagarde, President of the ECB, Luis de Guindos, Vice-President of the ECB

Frankfurt am Main, 16 December 2021

The first paragraph of the last question was updated on 17 December 2021 at 14:40 to correct a transcription error.

Jump to the transcript of the questions and answers

Good afternoon, the Vice-President and I welcome you to our press conference.

The euro area economy continues to recover and the labour market is improving, helped by ample policy support. Growth is moderating but we expect activity to pick up again strongly in the course of next year. The latest pandemic wave and the Omicron variant have prompted some countries to re-introduce tighter restrictions. Energy prices have gone up significantly. And in some industries, there are shortages of materials, equipment and labour. These factors are restraining economic activity and are a headwind for the near-term outlook. However, although the public health crisis is still ongoing, many people have been vaccinated and booster campaigns have accelerated. Overall, society has become better at coping with the pandemic waves and resulting constraints. This has lessened the pandemic impact on the economy. Inflation has risen sharply owing to the surge in energy prices, and also because demand is outpacing constrained supply in some sectors. Inflation is expected to remain elevated in the near term, but should ease in the course of next year. The inflation outlook has been revised up, but inflation is still projected to settle below our two per cent target over the projection horizon.

We judge that the progress on economic recovery and towards our medium-term inflation target permits a step-by-step reduction in the pace of our asset purchases over the coming quarters. But monetary accommodation is still needed for inflation to stabilise at our two per cent inflation target over the medium term. In view of the current uncertainty, we need to maintain flexibility and optionality in the conduct of monetary policy. With this is mind, the Governing Council took the following decisions:

First, in the first quarter of 2022, we expect to conduct net asset purchases under the pandemic emergency purchase programme (PEPP) at a lower pace than in the previous quarter. We will discontinue net asset purchases under the PEPP at the end of March 2022.

Second, the Governing Council decided to extend the reinvestment horizon for the PEPP. It now intends to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2024. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Third, the pandemic has shown that, under stressed conditions, flexibility in the design and conduct of asset purchases has helped to counter the impaired transmission of our monetary policy and made our efforts to achieve our goal more effective. Within our mandate, under stressed conditions, flexibility will remain an element of monetary policy whenever threats to monetary policy transmission jeopardise the attainment of price stability. In particular, in the event of renewed market fragmentation related to the pandemic, PEPP reinvestments can be adjusted flexibly across time, asset classes and jurisdictions at any time. This could include purchasing bonds issued by the Hellenic Republic over and above rollovers of redemptions in order to avoid an interruption of purchases in that jurisdiction, which could impair the transmission of monetary policy to the Greek economy while it is still recovering from the fallout of the pandemic. Net purchases under the PEPP could also be resumed, if necessary, to counter negative shocks related to the pandemic.

Fourth, in line with a step-by-step reduction in asset purchases and to ensure that the monetary policy stance remains consistent with inflation stabilising at our target over the medium term, we decided on a monthly net purchase pace of €40 billion in the second quarter and €30 billion in the third quarter under the asset purchase programme (APP). From October 2022 onwards, we will maintain net asset purchases under the APP at a monthly pace of €20 billion for as long as necessary to reinforce the accommodative impact of our policy rates. We expect net purchases to end shortly before we start raising the key ECB interest rates.

We also confirmed the level of the key ECB interest rates and our forward guidance on the future path of policy rates. This is crucial for maintaining the appropriate degree of accommodation to stabilise inflation at our two per cent inflation target over the medium term.

We will continue to monitor bank funding conditions and ensure that the maturing of TLTRO III operations does not hamper the smooth transmission of our monetary policy. We will also regularly assess how targeted lending operations are contributing to our monetary policy stance. As announced, we expect the special conditions applicable under TLTRO III to end in June next year. We will also assess the appropriate calibration of our two-tier system for reserve remuneration so that the negative interest rate policy does not limit banks' intermediation capacity in an environment of ample excess liquidity.

The Governing Council stands ready to adjust all of its instruments, as appropriate and in either direction, to ensure that inflation stabilises at its two per cent target over the medium term.

I will now outline in more detail how we see developments in the economy and inflation. I will then outline our assessment of financial and monetary conditions.

Economic activity

We expect the economic recovery to continue, driven by robust domestic demand. The labour market is improving, with more people having jobs and fewer in job retention schemes. This supports the prospect of rising household income and consumption. The savings built up during the pandemic will also support consumption. The current fiscal and monetary policy support, together with a continued global recovery, should support growth.

Economic activity has been moderating over the final quarter of the year and this slower growth is likely to extend into the early part of next year. We now expect output to exceed its pre-pandemic level in the first quarter of 2022.

To cope with the current pandemic wave, some euro area countries have reintroduced tighter containment measures. This could delay the recovery, especially in travel, tourism, hospitality and entertainment. The pandemic is weighing on consumer and business confidence and the spread of new virus variants is creating extra uncertainty. In addition, rising energy costs are a headwind for consumption.

Shortages of equipment, materials and labour in some sectors are hampering production of manufactured goods, causing delays in construction and slowing down the recovery in some parts of the service sector. These bottlenecks will still be with us for some time, but they should ease during 2022.

Looking ahead, we expect growth to rebound strongly over the course of 2022. Our new Eurosystem staff projections foresee annual real GDP growth at 5.1 per cent in 2021, 4.2 per cent in 2022, 2.9 per cent in 2023 and 1.6 per cent in 2024. Compared with our September staff projections, the outlook has been revised down for 2022 and up for 2023.

Targeted and growth-friendly fiscal measures should continue to complement monetary policy. This support will also help the economy adjust to the structural changes that are under way. An effective implementation of the Next Generation EU programme and the “Fit for 55” package will contribute to a stronger, greener and more even recovery across euro area countries.

Inflation

Inflation increased further to 4.9 per cent in November. It will remain above two per cent for most of 2022. Inflation is expected to remain elevated in the near term, but we expect it to decline in the course of next year.

The upswing in inflation primarily reflects a sharp rise in prices for fuel, gas and electricity. In November, energy inflation accounted for more than half of headline inflation. Demand also continues to outpace constrained supply in certain sectors. The consequences are especially visible in the prices of durable goods and those consumer services that have recently reopened. Base effects related to the end of the VAT cut in Germany are still contributing to higher inflation, but only until the end of the year.

There is uncertainty as to how long it will take for these issues to resolve. But, in the course of 2022, we expect energy prices to stabilise, consumption patterns to normalise, and price pressures stemming from global supply bottlenecks to subside.

Over time, the gradual return of the economy to full capacity and further improvements in the labour market should support faster growth in wages. Market and survey-based measures of longer-term inflation expectations have remained broadly stable since our last monetary policy meeting in October. But overall, these have moved closer to two per cent in recent months. These factors will help underlying inflation to move up and bring headline inflation up to our target over the medium term.

Our new staff projections foresee annual inflation at 2.6 per cent in 2021, 3.2 per cent in 2022, 1.8 per cent in 2023, and 1.8 per cent in 2024 – significantly higher than in the previous projections in September. Inflation excluding food and energy is projected to average 1.4 per cent in 2021, 1.9 per cent in 2022, 1.7 per cent in 2023, and 1.8 per cent in 2024, also higher than in the September projections.

Risk assessment

We see the risks to the economic outlook as broadly balanced. Economic activity could outperform our expectations if consumers become more confident and save less than expected. By contrast, the recent worsening of the pandemic, including the spread of new variants, could be a more persistent drag on growth. The future path of energy prices and the pace at which supply bottlenecks are resolved are risks to the recovery and to the outlook for inflation. If price pressures feed through into higher than anticipated wage rises or the economy returns more quickly to full capacity, inflation could turn out to be higher.

Financial and monetary conditions

Market interest rates have remained broadly stable since the October Governing Council meeting. Bank lending rates for firms and households remain at historically low levels. Overall, financing conditions for the economy remain favourable. Lending to firms is partly driven by short-term funding needs stemming from supply bottlenecks that increase their expenses for inventory and working capital. At the same time, corporate demand for loans remains moderate because of retained earnings and generous cash holdings, as well as high debt. Lending to households remains robust – driven by demand for mortgages.

Euro area banks have further strengthened their balance sheets thanks to higher capital ratios and fewer non-performing loans. Banks are now as profitable as they were before the pandemic. Bank funding conditions remain favourable overall.

In line with our new monetary policy strategy, twice a year the Governing Council assesses in-depth the interrelation between monetary policy and financial stability. An accommodative monetary policy underpins growth, which supports the balance sheets of companies and financial institutions, as well as preventing risks of market fragmentation. At the same time, the impact of accommodative monetary policy on property markets and financial markets warrants close monitoring as a number of medium-term vulnerabilities have intensified. Still, macroprudential policy remains the first line of defence in preserving financial stability and addressing medium-term vulnerabilities.

Conclusion

Summing up, the euro area economy continues to recover, despite a slowdown in the near term. The sharp increase in energy prices and demand outpacing constrained supply in some sectors are pushing up inflation. Inflation will remain above our target for most of 2022, but is likely to ease in the course of next year. At the same time, given the progress on economic recovery and towards our medium-term inflation target, we can discontinue net purchases under the PEPP in March. But monetary accommodation is still needed – including net purchases under the APP and our forward guidance on interest rates – for inflation to stabilise at our two per cent inflation target over the medium term.

We are now ready to take your questions.

* * *

The plan that you just laid out in terms of asset purchases implies no interest rate hike until 2023, but given the high uncertainty surrounding the forecast at the moment, how can you feel confident to commit for such a long period? If you look at the policy meeting December last year, you projected inflation to average 1% this year, and now it's going to be more than twice that.

My second question is on the emergence of omicron. To what extent has that been reflected in the new staff projections, and how do you expect the emergence of the new variant to impact inflation?

Lagarde: You actually identified one factor, which is uncertainty. We certainly spent a large amount of our time during the Governing Council meeting addressing the issue of uncertainty, in the face of what I have described for you as a strong recovery. So you have on the one hand a strong recovery, with unemployment going down as we have seen, 7.3% at the moment. Our projection for unemployment is 6.6% at the end of '24, a number that we have never had. We also have inflation that is moving towards our target, but on the other hand we have the uncertainty of omicron, as you just indicated, and it's not just omicron, it's also the fourth or the fifth wave of the pandemic that is affecting some of the European countries more than others, and some have taken measures. Omicron is clearly in development and yet to be assessed in terms of economic impact, as well as impact on inflation, and I'll come back to that in a second.

We have an added uncertainty, which has to do with the two items which have really fuelled the increase in our inflation projection for '22 in particular, which is the price of energy, and the constraint between strong demand on the one hand, and constrained supply, particularly in some sectors such as production of goods, notably automotive, which comes to mind naturally. So we have that contrasted situation of strong recovery, reduced unemployment, inflation moving towards our target, and on the other hand the uncertainty related and resulting from pandemic and evolution, as well as the uncertainty around energy prices and the misadjustment between strong demand and constrained supply. So in the face of all that, we made decisions which are in line with what we had initially intended, which is to gradually reduce the amount of purchases that we are going to make in the next few quarters.

As a result of that, we have decided that we will discontinue the Pandemic Emergency Purchase Programme (PEPP) on the due date, if I may say, at the end of March, as was initially considered, and we will reduce the pace of purchases in the next three months so that we have this gradual movement declining from where we are at the moment. We did not want to have a transition that would be hurting, and we also need to continue this progress towards our target and arrive at target, which we are not at yet at this point, which is the reason why we decided to increase the volume of purchases under the APP, but to increase it with a decline over the course of quarter two, quarter three and quarter four. Now, we're not making any specific commitment, if you read carefully our statement. We land at €20 billion in October, and we keep it open-ended, and we will maintain it at €20 billion until such time when we arrive at our target, which is the 2% over the medium term.

Given the uncertainty, we also wanted to have as much flexibility and as much optionalities available. Hence, the reason why on the account of PEPP we've decided to extend the reinvestment period at least by one year, and we've also, as I said in relation to PEPP, we've also decided to keep it open-ended. We are driven by data, and we will be reviewing next March, next June, next September, as we receive updated projections. We will reassess, and as it says very clearly in the statement as well, we will adjust in either direction depending on the data that we receive. But suffice at this point to indicate that, under the present circumstances, as I have said before, it is very unlikely that we will raise interest rates in the year 2022. That still stands. But we have to be very attentive to what data tells us, and we will do so at each and every monetary policy meeting, and even more so when we get regular projections that are either ECB only, or ECB and national central bank projections.

Now, to come back to your question about the impact of omicron, again, we are venturing in the realm of uncertainty. It will have impact, but in the first place we should acknowledge that our economies have become more resilient, stronger, and are more capable of adjusting wave after wave after wave, and variant after variant. So we don't know yet a lot from the scientific world as to the actual hardship of this virus and how bad it is relative to delta, for instance. We are still waiting for this data and this information from those who know, but the economy is more resilient. So it might have a dampening impact on demand, because people will consume less; people will go around less; people will be under restrictions, but it might also have an impact on the supply side as well.

The balance between the inflationary or deflationary impact that omicron will have is still totally uncertain, which is why, as I said, in view of this uncertainty, and with the strong recovery, we believe that it is the right place to gradually decline over the course of time, but keep flexibility and optionality in order to respond to change of circumstances.

What alternatives did you discuss in the meeting today? Did you discuss an envelope, and how strong was the backing behind the eventual decision?

The second question is about flexibility. Did you discuss transferring any of the flexibilities of PEPP over to the APP, and if not, are you confident that APP under the volumes decided today can function with the current framework, especially the issuer limit and the capital key?

Lagarde: Thank you for your three, questions, actually, if I counted them well. On your first one, there is so much in the set of proposals that are comprised in this monetary policy statement, that we have discussed extensively all these options, alternatives and proposals that you have in front of you. We didn't have a lot by way of alternative one, two, three, four. I think that there was so much work put into preparing this meeting, both in terms of macroeconomic data projections, confronting the central numbers, aggregating them with the national central banks, defining the monetary policy proposals, that we really debated what you have in this document. This was really the heart of the matter.

The second question you asked is because you are always interested in the intricacy of how the decisions are made. We had a very, very large majority to support the overall package. So there were a few members who did not agree with one or the other element of the package, and therefore did not support it all, but I can tell you that it was a very, very broad majority that supported the whole package.

Your third point deals with the flexibility. I'm sorry to do that, because some of you will comment that sometimes I read, and occasionally I do – but I would like to read again for you one paragraph which is really important, and I know there was some interrogations about this concept of flexibility. Let me just read it for you again. 'The pandemic has shown that, under stressed conditions, flexibility in the design and conduct of asset purchases has helped to counter the impaired transmission of our monetary policy, and made our efforts to achieve our goal more effective.' So we look at what has happened and what we learn from that. 'Within our mandate, under stressed conditions, flexibility will remain an element of monetary policy whenever threats to monetary policy transmission jeopardise the attainment of price stability.' I think if you read carefully that statement, from learning – actually, from the success of the flexibility attributes that we gave to PEPP, that was specific to the pandemic and transitioning out of pandemic - from what we learn, to the principle that we acknowledge under certain circumstances, and to address particular matters, to use flexibility as an attribute of anything that we do. I think that's a very strong statement. And on that basis, clearly, the asset purchase programme can stand on its feet very well, and it's a programme that has played a key role, that continues to play a key role, and that there was no need to actually modify in any shape or form.

Your inflation outlook for 2023 and 2024 is not that far away from your target, especially if you consider factors like the potential inclusion of owner-occupied housing further down the line. How do you see the upside risk to the medium-term forecast, and how will you react if those risks materialise?

Then, on the PEPP, you said that net purchases can be resumed if needed. Will that be officially announced, or just done, and will that buying be done within the framework or within the limit of the current envelope of €1.85 trillion?

Lagarde: So in relation to our inflation projections for 2023 and 2024, which are at 1.8% respectively, a small 1.8%, and a slightly higher 1.8% for '24, we are really making progress towards target. Are we at target, given that our target is 2% over the medium-term, and looking at the three criteria of our forward guidance? Not quite. Is there an upside risk? There is possibly an upside risk, but I think that staff, in putting their projections together, have in particular anticipated some impact on wages. We are, as you know, looking very, very carefully into wages, into negotiations, to determine how much of a second-round effect there would be on inflation. When we look backward, when we look at what's happening just now, we don't see much of that, and the numbers are not telling us that we are seeing second-round effects and that wage negotiations have delivered or are about to deliver numbers that would actually lead to second-round effects. But in the projections that have been produced by staff, drawing on the NCBs, the national central bank projections as well, there is quite a high level of wages that has been taken into account.

So yes, of course, there could be a stronger recovery. There could be stronger wages being delivered. This is really going to be a factor also of two things that we are uncertain about, as I have indicated. How will the price of energy evolve in the course of the next few quarters? Is it going to be as elevated, and more elevated – there has to be a dynamic – than what we have seen so far? It's probably going to stabilise, but there is a level of uncertainty about it, for certain. The same goes for the adjustment between supply and demand, but it is probably to be expected that consumption patterns will resume in more normal ways, and that there will not be that sort of catch-up demand that we have observed. In the same vein, it is reasonable to think that supply will adjust. So on those two accounts, energy is probably projected to stabilise; supply and demand will adjust, we believe, in the course of '22. And on the wage account, and how much of a second-round effect it would have, as I said, we are extremely attentive to what happens on a weekly basis, but what we are seeing now, certainly, is significantly below the levels that have been factored into the projections that we have. So we certainly hope that we reach our target in the medium-term, and the efforts that we are deploying are intended to that effect.

Your second question was about PEPP. As I said, we want flexibility, we want optionality, and as part of the flexibility we say very clearly – and I'm going to read again that paragraph, which is important 'Net purchases under the PEPP could also be resumed, if necessary, to counter negative shocks related to the pandemic.' Pretty straightforward, but as always, it is going to be a decision by the Governing Council. So it's not something that will happen randomly, by the way; it will require a decision by the Governing Council on the recommendation of the Executive Board. We say 'net purchases', we don't say a particular amount, or emptying the balance of the envelope that we would have at the end of March. So it's clearly at the determination of the Governing Council, and depending on the circumstances.

My question is about Greek bonds. When, of course, and if, they attain investment grade, will the ECB start buying them under the Asset Purchase Programme (APP) as they did, for example, with the Cypriot bonds in 2018, and even at an increasing rate to regain lost [ground? Would that be even in a scenario where the net purchases under the PEPP will get ended? Will the ECB catch up in a sense?

Lagarde: I think the eligibility criteria for purchases of public sector bonds under the PSPP are very well known, and it is very well known that in the current state of things we only purchase bonds with an investment-grade rating. While Greece has clearly made really very good progress under its programme of reforms and changes over the course of time, as we see clearly at each and every surveillance mission that we conduct jointly with the Commission, Greece has improved its rating, but it does not have the rating that makes it eligible for the PSPP under the APP. It is for that reason that we have decided to have a specific reference to Greece, and to the Hellenic Republic[1] in particular, to make sure that this aspect is actually addressed. So I'm going to read again. It's an important paragraph, actually. So, we state the general principle of reinvestment, so we say, 'In particular, in the event of renewed market fragmentation related to the pandemic, PEPP reinvestments can be adjusted flexibly across time, asset classes and jurisdictions at any time.'

Then we have this special sentence that relates to Greece, 'This could include purchasing bonds issued by the Hellenic Republic over and above rollovers of redemptions in order to avoid an interruption of purchases in that direction, which could impair the transmission of monetary policy to the Greek economy while it is still recovering from the fallout of the pandemic.' So that's a really strong signal, and it's rarely the case that there is a country-specific clause to that effect, and that particular clause was very strongly supported in the Governing Council.

Can you just elucidate a bit further the conditions under which the PEPP could be restarted, specifically with the economic impact of the pandemic? Is it to do with the impact on inflation of the pandemic? Is it to do with the state of the health crisis?

My second question is, you've said that growth is slowing in the final months of this year, and it's likely to be slow at the start of next year, and you've also said that your medium-term

inflation forecast is still below your target, so why are you planning to quite sharply reduce the pace of asset purchases?

Lagarde: Let me just remind you how we are planning on using PEPP after we have discontinued net asset purchases under PEPP. It's an instrument of which we want to use the reinvestment period, as well as the flexibility, obviously, within the parameter of the circumstances and the causality that created the pandemic emergency purchase programme. So it was pandemic related, and we are planning on using it in two different ways. First of all, for a flexible reinvestment policy, and that is very clearly articulated in that paragraph three on page three, and if necessary – and that's how we want to keep options available – if necessary, net asset purchases could be resumed. That is also clearly indicated, because it says to counter negative shocks related to the pandemic. So it is, if you will, pandemic specific in its inception, and in its implementation. Now, pandemic, obviously, includes a moment of transition out of the pandemic, which is clearly covered under that particular section. Let's not forget that we also provide for a one-year extension of the reinvestment of PEPP, one year at least. So you have three dimensions within which PEPP is actually going to serve this flexibility that has helped us so much during the last two years.

You had another question, which I find quite strange, because what we are doing on the occasion of this monetary policy meeting is two things: Draw the conclusion of how effective our purchase programmes have been, but in particular how effective the PEPP has been. Don't forget that when we started PEPP, on inception, it was twofold: make sure that there was monetary transmission and that it could fight fragmentation risks; number two, monetary policy stance. Clearly, on these two accounts, PEPP has actually fulfilled its purpose, or served its purpose and fulfilled its mission. Fragmentation has been largely reduced, and in terms of stance, when we look at where we wanted to get to, which was the pre-pandemic trajectory, which was 1.6% at the time, we are at 1.8%, time passing and the pandemic having hit the economy. So as a result of that, we decided to discontinue PEPP, we decided to reduce the pace of purchases, but of course, 1.8% is not 2%, and we want to get to that medium-term target of ours of 2%, in line with our forward guidance.

So we keep the APP, not at €20 billion, but at €40 billion, in order to avoid a brutal transition, and because we need to get to our medium-term 2%. So I don't see the contradiction that you identify. We draw the lessons from what has worked and what has served its purpose. We keep it dormant and effective in terms of reinvestment phase, and we maintain the flexibility. We agree to reactivate the net purchases, if it's needed in pandemic transition-related circumstances. Separate from that, in order to reach our level, and in order to avoid a brutal transition, we increase the asset purchase programme and we decline it over the course of three quarters.

I have a question first related to the staff projection. If I look at the figures, taking into consideration all the uncertainty you have outlined, I'm still a bit puzzled about the figures of 3.2% inflation next year, which is nearly twice as much as the figures given only three months ago. Are you concerned that the population loses some confidence in these projections if the gap is as high as in this situation?

The second question, obviously, economies all over the world are different, and one cannot compare them one with each other. Still, we can see, as you know, that there is quite a change in monetary policy by the US, by Britain, by Canada, by Australia, and the ECB seems just to

stick to the approach also for the next year. And is the Governing Council concerned that this divergence will become a problem over the medium term? If I may, please, I would like to give my best health wishes to the Vice President.

Lagarde: That is so kind of you, thank you. I'm sure that he will want to respond to you in a microsecond. You are quite right that our projection for 2022 is significantly higher than what we had back in September, but if you look at what is behind this increase, we were at 1.7% and we are 3.2%. It's a significant increase, no question about it, and we all scratched our head and tried to get under the skin of those inflation projections, and so did members of staff. It's work that is done, not just by the ECB; it's all the national central banks of the Eurosystem: the Bundesbank, the Banque de France, Banca d'Italia, De Nederlandsche Bank. All of them contribute their numbers, and it's the aggregation of those numbers that result in those projections. So it's not a solitary exercise that would be conducted on the Main river.

If you look underneath, what's behind it? It's, predominantly, it's two-thirds, energy prices. Now, energy prices are not something that you can anticipate, diagnose. It comes as a result of what? As a result of a lot of geopolitical issues that are developing. It comes as a result of a very significant demand that really very few people had expected it to be at that level. It comes from some climate-related issues, as well, where, because of low – I'm sorry to go into these climate issues – but because of low winds in those areas that produce the wind energy, eventually, countries had to resort to gas supply. Now, unfortunately, the gas inventories that had been stored by some countries that use a lot of it, like China, because they had a very cold winter, were significantly lower than expected. So you have all these factors that come into the demand, and face a relatively constrained supply.

So as I said, energy is more than two-thirds of this very significant difference between our September projections and our December projections. The other part of it – and I'm talking here about the delta between previous projections of September and the projections we have now – the other part is, essentially, related to the longer duration of the supply bottlenecks, which is the confrontation of catch-up demand on the one hand, and constrained supply on the other one. As many economists had, we had assumed that it would not last as long as it did. Now, as I said, we tried to really dig into it. We not only look at models, we not only look at output, but we also contact entrepreneurs, SMEs, large accounts, corporates, at all levels, and in all sectors to ask them, 'Okay, how are you doing on the supply front? What is the length of delivery that is now asked from you?' What we are seeing, by the way, is just the beginning of shorter – not a lot, but slightly shorter – delivery delay, which might be an indication that we are getting towards a reduction of this supply bottleneck impact. I'm very hesitant to take too much learning from that, because, as I said, it's one of the factors that is highly uncertain.

I think it's difficult to compare the United States and the euro area, for instance, or the UK with the euro area. Those three economies are at completely different stages of the cycle. They started from different bases. They had different fiscal support in their respective countries. So I don't think that you can actually assume that because something is happening at the FED it is bound to happen at the ECB and in the Eurosystem. We are in a different environment, and while there are spillover effects between what they do, what we do, we are starting from a very, very different base. I would add that, in order to deploy our monetary policy effectively, we have a forward guidance that is pretty clear and that indicates when we have reached our target, under what criteria. Forward guidance is: sufficient progress now; target well ahead of the end of the projection horizon: and at the projection horizon.

So you need the three conditions, and we also have forward guidance when it comes to when we start raising interest rates, and that is clearly shortly after[2] we finish purchasing assets. So that gives a clear indication of where we are positioning ourselves and what will trigger a move in that respect. Inflation is very hard on consumers; it's very hard on those who are purchasing, and sometimes at much higher prices than what they were buying three months ago, because there is a trail between the commodity prices, the energy prices in general, and retail prices. We have to respond, and we are responding at the moment, in that gradual way, supporting though, the journey that we make towards the target. Now, my dear friend, Luis, if you want to maybe add your good wishes, we need to hear your voice. It would be so nice.

De Guindos: Thank you very much, President. Thank you very much for your wishes. What I have to say is that I feel well. My symptoms were very mild. I am improving, and I am experiencing in myself how important it is to be vaccinated in order to deal with this virus. So that's the only thing that I can say. I was able to join the meetings of this week, that have been extremely interesting.

I have two questions. The first one is onTLTRO III, if you can give us an idea of how the discussion went, as it is an important instrument, but the big changes have come on PEPP and APP, and it would be interesting to know if you, for example, discussed an extension or a TLTRO IV.

Then my second question, if I can go back to PEPP, only to understand if there are special reasons why, or how you came to the decision to extend it to 2024, and given the importance of flexibility and being used on reinvestments, is there a message that reinvestments are an important tool in your box?

Lagarde: On TLTRO, as you know, it has provided ample liquidity at very attractive rates, and it has really been an incentive for banks to continue lending, and in the bank survey that we conduct on a regular basis, they are always indicating that TLTRO and TLTRO special conditions have been very effective in supporting the financing of the economies at enterprise and household levels. Clearly, as planned, and given the financing conditions that are available, we currently expect that the special conditions applicable under TLTRO IIIwill end in June 2022. This is really based on the currently favourable assessment of banks' funding and liquidity conditions, and the smooth banks-based transmission of our monetary policy. This does not mean that the support transmitted through the TLTRO3 will end, because banks are going to continue to benefit from the attractive TLTRO III conditions. The first operation will only mature in September of '22, and the final one will mature in December '24. So banks are going to continue to benefit from those attractive conditions, unless they decide to elect for an early repayment, but otherwise, it will continue to be available. We will remain very attentive and we will monitor very carefully those favourable financing conditions going forward, in order to make sure that our monetary policy is transmitted properly throughout the banking system.

On the PEPP reinvestment and 2024:

If you look at this section concerning PEPP, we say, 'Extend the reinvestment by at least one year until '24', and this has been considered as appropriate under current circumstances, in order to gain flexibility and in order to attain our 2% target over the medium term. So this is, as I said, at least until 2024. We don't see a need to provide for something longer at this point in time, but as I said, flexibility optionalities are on the table, because we need to be attentive to the situation that is plagued with uncertainty, but that is a strong recovery with those good numbers that we are seeing on growth, that we are seeing on employment, and that we are seeing by the account of our target on the inflation front.

With that, I would like to wish all of you a happy holiday. Merry Christmas for those who celebrate Christmas, and we look forward to seeing you again in the New Year. In the meantime, as is often said, but I mean it, given the proximity of what COVID can do, stay safe, be attentive to your loved ones, and make sure that you stay away from this nasty COVID and various variants. Thank you.

1. Transcript corrected after a misstatement.
2. Transcript corrected after a misstatement.

You may also be interested in:

Combined monetary policy decisions and statement

> Download PDF

President Lagarde presents the latest monetary policy decisions – 16 December 2021

> Go to the podcast

CONTACT

European Central Bank

Directorate General Communications

- Sonnemannstrasse 20
- 60314 Frankfurt am Main, Germany
- +49 69 1344 7455
- media@ecb.europa.eu

Media contacts